

## 2. CONTRACTORS

The following special regulations apply to contractors who elect to report income using the completed contract method; provided, however, that:

- a) such regulations shall apply only to contracts having an effective date on or after January 1, 1985; and
- b) with respect to contracts with a gross revenue of \$100,000 or less, such regulations shall apply only at the option of the taxpayer.

I. When allocating and apportioning income in accordance with the provisions of Article IV of the Multistate Tax Compact, 24-60-1301, C.R.S.:

A. In General. A contractor who has income from sources both within and without Colorado and elects to report income using the completed contract method shall determine income in accordance with this regulation. Net income shall first be categorized as to "business" or "non-business" pursuant to Article IV.1 and Regulation IV.1. Net non-business income will be directly allocated to specific states in accordance with Article IV.5 to .8 inclusive. Gross profits from completed contracts, business administrative income and business administrative expense will be apportioned to those states in which business is conducted based on property, payroll and revenue apportionment factors as set forth in this regulation. The amount of net income subject to tax by Colorado will be the sum of (1) the gross profit from completed contracts apportioned to Colorado less business administrative expense apportioned to Colorado plus (2) other business income apportioned to Colorado which is not directly attributable to completed contracts plus (3) the amount of non-business income allocated to Colorado.

B. General Definitions.

1. "Job" means a long-term contract entered into to build, construct, install or manufacture which will not be completed within the tax year in which it is entered into. As used in this regulation a "job" will refer to only those contracts where a taxpayer elects to report income using the completed contract method.

2. "Job Revenue" means gross revenue recorded on the books in accordance with generally accepted accounting principles. Billings shall be adjusted for overbillings or underbillings whenever applicable.

3. "Job Costs" means costs recorded on the books as being paid or accrued that are directly attributable to a specific job.

4. "Job Profit or Loss" means the gross profit or loss attributable to a specific job, which is determined by subtracting "Job Costs" from "Job Revenue".

5. "Gross Profit Apportioned to Colorado" means Colorado's share of the sum of "Job Profits and Losses" of all jobs completed during a specific tax period.

6. "Administrative Expense Apportioned to Colorado" means Colorado's share of expense not directly attributable to a specific job.

C. Business and Non-business Income. For definitions and rules for determining business and non-business income, see [Regulation IV.1](#).

D. Apportionment Factors. The same methods in reporting of items for all factors must be consistent for both the numerator and denominator.

1. Property Factor. Property Valuation - Owned property shall be valued at its original cost and rented property shall be valued at eight (8) times the net annual rental rate in accordance with Article IV.11. Rent expense directly attributable to incomplete and completed jobs shall be capitalized in the numerator and denominator of the factor in the tax year in which it was paid or accrued.

2. Payroll Factor. The denominator of the payroll factor is the total compensation paid everywhere by the taxpayer during the tax year. (See Article IV.13 and .14 and Regulation IV.13 and .14) The numerator of the payroll factor is the total amount paid in this state during the tax period by the taxpayer for compensation. Compensation directly attributable to incomplete and completed jobs shall be included in the numerator and denominator of the factor in the tax year in which it was paid or accrued.

3. Revenue Factor. All revenue derived from transactions and activities in the regular course of the trade or business of the taxpayer which produces business income is included in the denominator of the revenue factor. (See Article IV.1 and Regulation IV.1) The numerator of the revenue factor is the total revenue of the taxpayer in this state during the tax year. When determining the denominator and numerator of the revenue factor, revenue directly attributable to contract jobs shall be included in the tax year on the basis of progress billings and receipts from completed and incomplete contracts. When determining the numerator, the typical computation would be:

Total contract price for all jobs completed in this state during the tax year.....\$ XXXXXX.

Plus

Total progress payments billed or received

for all incomplete jobs in this state at the end of the tax year.....\$ XXXXXX.

Less

Total progress payments billed or received in prior tax years for the above completed and incomplete jobs in this state.....\$(XXXXXX.)

Equals

Total revenue directly attributable to all jobs in this state during the tax year.....\$XXXXXX.

Add

Revenue from other business activities in this state not directly attributable to jobs. \$  
XXXXXX.

Numerator \$

XXXXXX

The denominator of the revenue factor would be computed in the same manner for all jobs everywhere and includes all other revenue from business activities not directly attributable to contract jobs.

E. Apportionment of Income and Expense. Once the property, payroll and revenue factors have been determined and an average factor computed, income and expense shall be apportioned to this state as set forth in this regulation.

1. Gross Profit. The gross profit of each and all jobs completed during the tax year shall be apportioned to this state by weighted factors. When determining the gross profit to be apportioned to Colorado from a job spanning a three year period, the typical computation would be:

Year 1 completed during year 1	Percent of job X factor in year 1	Average property, payroll and revenue =	Weighted factor year 1
Year 2 completed during year 2	Percent of job X factor in year 2	Average property, payroll and revenue =	Weighted factor year 2
Year 3 completed during year 3	Percent of job X factor in year 3	Average property, payroll and revenue =	Weighted factor year 3
			<hr/>

Total Weighted Factor

Gross profit from this job completed in year 3 would be apportioned to Colorado by a factor which is the sum of the weighted factors of years 1, 2, and 3.

2. Administrative Expense. Administrative expense not directly attributable to jobs and not directly related to allocated income shall be apportioned to Colorado by the average property, payroll and revenue factor.

3. Other Business Income. Other business income not directly attributable to jobs shall be apportioned to Colorado by the average property, payroll and revenue factor.

F. Colorado Taxable Income.

Gross profit apportioned to Colorado from all jobs completed during the  
tax year.....\$ XXXXX

Less

Administrative expense apportioned to Colorado.....(\$ XXXXX)

Plus

Other business income apportioned to Colorado not directly related to  
jobs.....\$.XXXXX

Equal

Total taxable income apportioned to Colorado.....\$ XXXXX

Add

Non-business income allocated to Colorado.....\$ XXXXX

Colorado Taxable Income.....\$ X XXXX

II. When apportioning income in accordance with the provisions of C.R.S. 39-22-303:

A. Section 39-22-303 makes no distinction between "business" and "non-business" income, and provides that the entire net income shall be apportioned.

B. Income will be apportioned to Colorado via property and revenue factors rather than property, revenue and payroll factors.

1. Property Factor - The numerator and the denominator of the property factor shall be determined in the same manner as set forth in Part I with the following exceptions:

a. The property owned by the taxpayer may be valued at its original cost or its adjusted basis for federal income tax purposes in accordance with C.R.S. 39-22-303.

b. Real property rented by the taxpayer is valued at eight (8) times the net annual rental rate. Tangible personal property rented by the taxpayer is valued at three (3) times the net annual rental rate.

c. Construction in progress is to be included.

2. Revenue Factor - The numerator and denominator of the revenue factor shall be determined in the same manner as set forth in Part I with the following exception:

"Business" and "non-business" income that is not directly attributable to contract jobs, shall be included in the numerator and denominator in accordance with the provisions of C.R.S. 39-22-303.

3. Apportionment of Income and Expense - Income and expense apportioned to Colorado shall be determined in the same manner as set forth in Part I, with the following exception:

There will be no directly allocated income. Income that is directly allocated to specific states in Part I, shall be apportioned in accordance with C.R.S. 39-22-303.